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**Agricultural Finance and Small Business Management**

*This is one of a series of articles written by Dr. David Kohl for the Minnesota State Colleges and Universities*

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## Top Questions and Advice from the Road

By: Dr. David M. Kohl

My travels give me a special vantage point as I work with thought leaders in the agriculture industry including producers, lenders, agribusiness people, government leaders, and academics. Throw in the shoeshine people at the airport, along with truckers and fellow air travelers, and it is easy to see the broad spectrum of people whom I encounter. This last newsletter article of the series is based on the interaction, questions, advice, and counsel I experienced on the road this past winter.

### Advice for a young business person

It is so important to surround yourself with the right people. That could range from a good set of mentors to interaction with the right set of peers. Teachers and advisors will be critical to your success. If you have the opportunity, enroll in an agricultural leadership or young producer program that is sponsored by organizations or businesses that are interested in carrying on the legacy of agriculture. Also, interact with people outside the industry of agriculture to gain a broader perspective of the economic and social environment.

### Tips for both generations facing business transition

For the younger generation going into the business, make sure that the business is profitable. Is the business culture conducive for growth professionally and as an individual? If you are going back to the family business, can the business benefit from your skill set and experiences? Will you have a job description with conditions that value accountability? Ensure you will be able to make some business financial decisions within six years of joining the business to develop your financial skill set, which is critical for long term success.

To the senior generation, what will be your exit plan? How much money will you need to live on in retirement, and what will be the source of that income? Also, where will you live, and what will be your role in the business? Management transition will be just as important as estate planning. Remember it is a process, not an event, thus incremental steps will be very important.

### Is agriculture a prudent field of study?

Yes! Remember, however, college or university is not for everyone. Vocational or technical school can provide the necessary training in this high-tech world that values real world application. Do not forget community colleges, either. As a university professor, I think finding the right curriculum with great instructors is the best value in education, and for lifelong learning. If you desire a 4-year university route, plan to study



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science, business, economics, and communication along with your agricultural degree.

Emotional intelligence skill sets are becoming ever more important as society moves to a high-tech world. That is why 4-H, FFA, and other leadership programs are critical to society in building young people's teamwork, critical thinking, and leadership skills. Also, I recommend students participate in at least two internships, one outside your area or region and the other outside the U.S. This will be essential as one works in a global economic environment where understanding culture and history are just as important as language.

#### Guidelines for business expansion

Whether it is the purchase of the neighbor's 80 acres, or a new livestock, dairy or poultry facility, expansion can be exciting. However, the number one reason businesses fail is undisciplined growth and expansion. Here are a couple basic rules for successful expansion. Build 25 percent more time and money in your budget than you expect on any project. Plan one dollar of investment for every dollar of gross income. For example, for every dollar you are planning to invest in expansion, you need to have a cash flow that will generate a dollar of revenue, according to the well-respected banker and consultant Gary Sipiorski. I totally agree with my friend. Some lenders will use the rule that a dollar of debt needs to generate a dollar of revenue, or a dollar invested needs to generate at least \$0.70. Remember before you embark on expansion, get efficient (or better) before you get bigger. Fine-tune the operations first, and then position to capitalize on the economies of scale.

#### What are some good reads?

Some of you will be headed to the fields with warmer weather. In your downtime, some good reads over the summer can stimulate thinking. The following are magazines and books that I have enjoyed and recommend.

*The Economist*, published in London, while somewhat deep, keeps you abreast of global economics and social, political, and military issues in many areas of the world. It gives an unbiased view of the U.S.

*American Nations: A History of the Eleven Rival Regional Cultures of North America*, by Colin Woodward, is a thought-provoking read that examines why the U.S. society, politics, and business is the way it is. This was a recommended reading by a speaker in Canada. He was an advocate that North America will need to join together to compete with other block economies.

*Good to Great* and *Great by Choice* by Jim Collins are great business books that discuss people and their importance in building successful businesses. *Great by Choice* examines companies that are much more profitable and sustainable than others.

One of my favorites is *The Ultimate Gift* by Jim Stovall. This book is required reading for any business owner with children who will inherit assets and equity. It contains many great life principles.

Best wishes for safe planting! Enjoy these longer spring and summer days in the Upper Midwest!



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